

Message Text

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ACTION ARA-20

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C O N F I D E N T I A L CARACAS 6139

E.O. 11652: GDS

TAGS: EMIN

SUBJ: PLANS FOR A THIRD IRON BRIQUETTING PLANT AT CIUDAD GUAYANA

REF: CARACAS 6074

1. MILES SHEROVER, DIRECTOR OF SIVENSA, WHO PROVIDED MOST OF INFORMATION SET OUT REFTEL, CALLED ON ME THIS MORNING.

2. HE REPORTS THAT GENERAL RAFAEL ALFONZO, HEAD OF THE CORPORACION VENEZOLANA DE GUAYANA, HAS AGREED IN PRINCIPLE TO PARTICIPATE IN AN EVEN LARGER STEEL BRIQUETTING PLANT LIKEWISE USING THE STANDARD OIL OF NEW JERSEY PROCESS WHICH WOULD PRODUCE TWO MILLION TONS OF BRIQUETTES A YEAR AS CONTRASTED WITH 400,000 TONS P.A. IN THE PLANT FOR WHICH CONSTRUCTION CONTRACT WAS AWARDED LAST WEEK. RATIONALE BEHIND THE LARGER DEAL IS THAT IT WOULD MAKE POSSIBLE GREATER SAVINGS THROUGH ECONOMY OF SCALE. FOR EXAMPLE, THE 400,000 TON BRIQUETTING PLANT, WHICH WILL BE COMPLETED IN MARCH 1975, WILL COST ALL IN ALL CLOSE TO \$40 MILLION WHEREAS A TWO MILLION TON PLANT WOULD COST ONLY \$100 MILLION.

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3. SHEROVER SAYS CONSORTIUM HAS SIGNED A TEN YEAR CONTRACT WITH CVP TO SUPPLY NATURAL GAS FOR THE 400,000 TON BRIQUETTING PLANT AT ONLY 13 CENTS U.S. PER THOUSAND CU.FT. (MOBIL OIL PRESIDENT FITZGEORGE TELLS ME THIS GAS IS SUPPLIED TO CVP BY HIS COMPANY AT HALF THAT PRICE.) THE SAME CONTRACT COULD, SHEROVER SAYS, BE EXTENDED TO THE MUCH LARGER TWO MILLION TON PLANT. THERE IS SUFFICIENT RESERVE OF HIGH GRADE IRON ORE NEAR CIUDAD GUAYANA TO SUPPLY BRIQUETTING INDUSTRY FOR OVER A CENTURY.

4. MAIN STUMBLING BLOCK, ACCORDING TO SHEROVER, IS RELUCTANCE OF EXXON TO PARTICIPATE IN ANY WAY IN FINANCING OF THE LARGER BRIQUETTING PLANT ALTHOUGH IT WOULD USE EXXON'S PATENTED GAS REDUCTION PROCESS AND WOULD PAY A ROYALTY OF SOME \$15 MILLION FOR USE OF THAT PROCESS. ACCORDING TO SHEROVER, EXXON TAKES AN EXTREMELY DIM VIEW OF DOING BUSINESS IN VENEZUELA; UNDOUBTEDLY A REFLECTION OF THE TROUBLES CREOLE HAS HAD, PARTICULARLY WITH THE PRESENT CALDERA GOVERNMENT. PROBLEM SEEMS TO BE THAT EXXON LOOKS AT ALL OF VENEZUELA THROUGH OILMEN'S SPECTACLES AND IS RELUCTANT TO SEPARATE OUT A DISTINCTLY DIFFERENT ENTERPRISE SUCH AS THE BRIQUETTING OF IRON ORE FROM ITS PETROLEUM INTERESTS HERE.

5. ACCORDING TO SHEROVER, AT ONE TIME STANDARD OF NEW JERSEY WAS INTERESTED IN THE GAS REDUCTION PROCESS TO THE EXTENT THAT FOR FIVE YEARS IT PRODUCED 100,000 TONS OF BRIQUETTES A YEAR AT A PLANT AT DARTMOUTH, NOVA SCOTIA, UTILIZING GAS FROM A NEARBY STANDARD OIL REFINERY. COMPANY THEN PERFECTED PLANS FOR A MUCH LARGER BRIQUETTING PLANT TO BE LOCATED IN TEXAS; BUT BOARD OF DIRECTORS, LOOKING INTO THE FUTURE, QUESTIONED WHETHER FPC WOULD PERMIT SUFFICIENT QUANTITIES OF NATURAL GAS TO BE USED FOR INDUSTRIAL PURPOSES AND THEREFORE PLACED PLANS FOR BRIQUETTING PLANT IN THE BACK DRAWER. APPARENTLY EXXON IS NOT, REPEAT NOT, INTERESTED IN FINANCING A BRIQUETTING INDUSTRY IN VENEZUELA ALTHOUGH IT HAS NO OBJECTION TO PERMITTING SUCH PLANTS USING ITS PROCESS TO BE CONSTRUCTED ON PAYMENT OF ROYALTY.

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6. I EXPLAINED TO MR. SHEROVER THAT I DID NOT SEE MUCH USG COULD DO TO INTERVENE WITH A PRIVATE US CORPORATION IF IT DID NOT WISH TO INVEST CAPITAL IN ANY GIVEN FOREIGN VENTURE, ALTHOUGH CLEARLY THERE WOULD BE ADVANTAGES TO US INDUSTRY IF A LARGE THIRD BRIQUETTING PLANT WERE ERECTED IN VENEZUELA BY US COMPANIES UTILIZING US LABOR IN PRODUCING THE HIGHLY SPECIALIZED MACHINERY NECESSARY TO SUCH AN INDUSTRY. USG ALSO OF COURSE HAD A CONTINUING INTEREST IN SECURE

SOURCES OF HIGH GRADE IRON ORE. I SAID I WOULD INFORM
WASHINGTON OF HIS INTEREST AND SUGGESTED ON A PERSONAL
BASIS THAT PERHAPS SUCH A TRAINED FINANCIAL EXPERT AND
ECONOMIST AS EMILIO COLLADO OF EXXON MIGHT BE THE MAN
WITH WHOM VENEZUELAN CONSORTIUM COULD MOST USEFULLY
RESUME CONVERSATIONS.
MCCLINTOCK

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